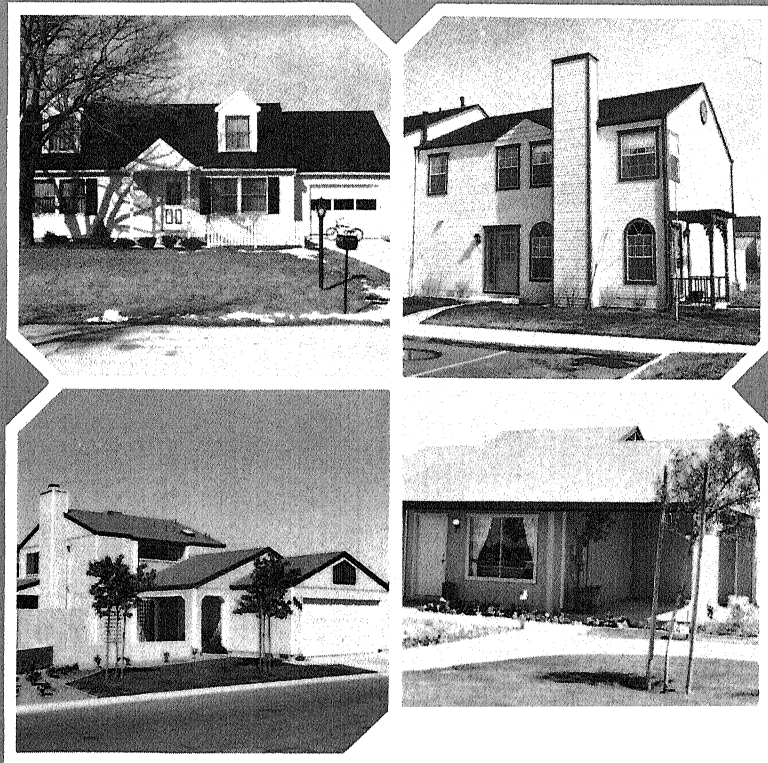




U.S. Department of Housing and Urban Development

## Affordable Housing and You



# 2

Citizen  
Action for  
Affordable  
Housing

## Affordable Housing and You

---

*Any community that **wants** affordable housing can have it. We've demonstrated that savings of 10 to 20 percent can be achieved by streamlining outdated procedures and requirements affecting housing costs.*

Samuel R. Pierce, Jr.

Secretary, U.S. Department of Housing and Urban Development

### **What is "affordable housing"?**

Affordable housing is appropriate housing that can be purchased by people for a reasonable percentage of their income. A person with an "average income" ought to be able to buy an "average price" new house.

Generally speaking, housing is considered affordable when monthly shelter costs do not exceed approximately one-third of a person's monthly income.

America has been called "a nation of homeowners." But today, America needs more affordable housing opportunities.

### **Is affordable housing the same as subsidized housing?**

No. We are addressing homeownership opportunities. Just ask people with a family income of \$20,000 to \$30,000 per year who are trying to buy a house if they consider housing in their community affordable. For some the answer will be "No!" In a very real sense, the high demand for housing, combined with high prices, has created a large new group of Americans—those who want to own housing and ought to be able to buy it on their present income, but find it difficult to do so.

---

### **How severe is the affordable housing problem?**

According to the U.S. League of Savings Institutions, "Denial of homeownership opportunities to large numbers of families who would qualify by all traditional measures of income and education adds up to a major, urgent concern for our society."

Just 20 years ago, families with modest resources were able to buy a typical new house with relative ease. But today even many two-earner couples with sizable incomes are shut out. Right now, only 25 percent of American households are able to buy new single family homes.

The costs to our society of this housing affordability crisis are huge. Frequently, people with moderate incomes cannot afford a down payment or mortgage payments.

For nearly 40 years—from the early 1940's until the late 1970's, when double-digit inflation hit—families' real disposable incomes were able to keep up with, or even outdistance, increases in home prices and mortgage interest rates.

It was in 1979 that the American dream of homeownership began to evaporate. By that year, due to overregulation and galloping inflation, the median-income household could not qualify to buy a median-priced new home at the interest rates and terms available in the conventional marketplace. The typical family of 1979 could afford to finance a home costing less than \$59,000, but median home prices had risen to \$63,000—\$4,000 beyond the consumer's reach.

---

Now, even though inflation is under control, and interest rates have fallen by over 25 percent since 1981, some prices are still beyond affordability.

We have reached a point where as few as 15 percent of first-time home buyers can afford to purchase the median-priced new home. Today, housing prices are so high, due to past inflation and over-regulation, that 60 percent of existing homeowners could not afford to purchase their present homes without the benefit of their accrued equity.

**What are the causes?**

The major elements that go into the cost of a new house include land, labor, materials, financing, and overhead and profit. During the decade of the 1970s, when housing began to move beyond the grasp of many Americans, these elements became more costly.

However, three of these elements—labor, materials, and overhead and profit—decreased as a percentage of total housing cost.

The other two elements—land and financing—did not just increase as a percentage of total housing cost, they exploded. During the 1970s, the cost of land went up 248 percent.

---

Why did this happen? Inflation is only part of the answer, and that is now under control. The major factor was, and continues to be, over-regulation. As citizens, we can do a lot about over-regulation, if our community wants to provide homeownership opportunities.

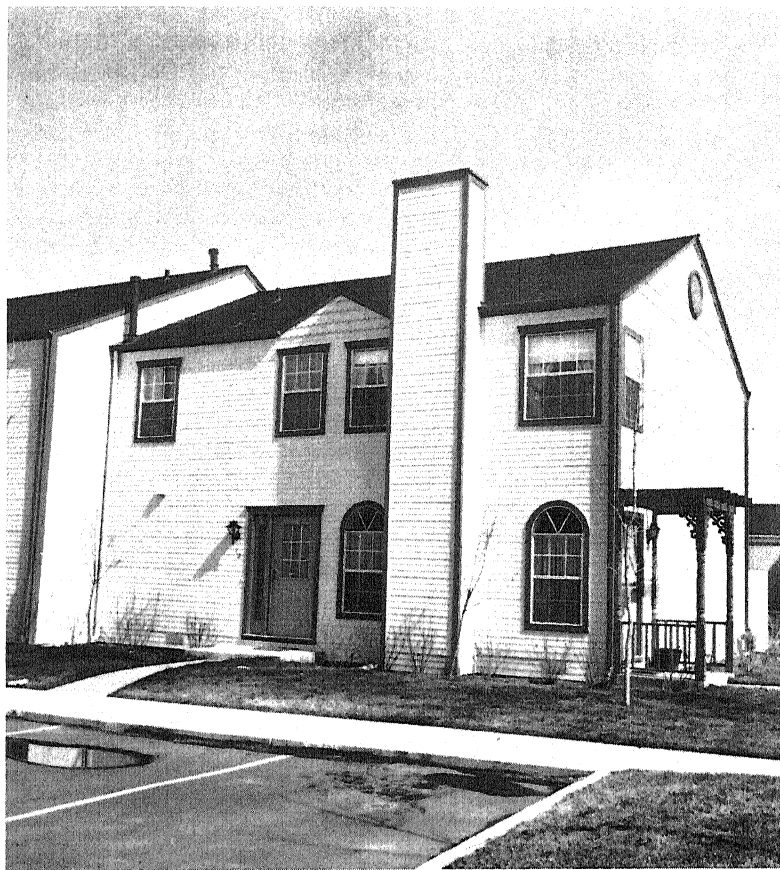
#### **How does over-regulation affect the cost of housing?**

Over-regulation affects the costs of land, building construction, and financing.

**Land and Site Development Costs.** The cost of the land on which a house is built includes the price of the undeveloped land, the cost of onsite improvements (such as grading and installing utility services), and a proportionate share of overall development improvements (such as streets, street lights, sanitary and storm sewers, water service, and other utilities). All these costs are proportionately added to the price of each unit in the development.

Many of these site requirements result from local regulations. It is here that the cooperative efforts of citizens, local officials, and the homebuilding industry can really bring about lower unit costs.

These costs can be lowered in two ways: first, by increasing site density, thereby reducing the lot size and land cost for each house; and second, by cutting back on unnecessary site and subdivision development requirements, for instance, reducing street widths, simplifying storm drainage systems, and permitting single trenching for utilities. With careful site design, these steps can be taken without adversely affecting subdivision quality.



---

**Building and Construction Costs.** The price of the house also includes the costs of materials, components, and equipment used in the house and the labor needed to assemble them.

These costs can be lowered by reducing the quantity of materials and equipment needed, by cutting back the time required to assemble them, by using modern, lower cost materials and components that can do the same job just as effectively, or by using totally manufactured homes or manufactured components. For example, a U.S. Department of Housing and Urban Development (HUD) study showed that the amount of lumber needed to frame a single-family residence could be reduced by as much as 20 percent through careful design and construction without sacrificing safety or durability.

Another way to reduce construction costs is to reduce the size of the living units, both in total area and in number of rooms. Changes in family sizes and lifestyles in the past decade have led to significant changes in the demand for certain types of housing. Many of today's families require fewer bedrooms and smaller living areas.

The use of many cost-cutting methods available to the industry is often restricted by local building code requirements that have nothing to do with health and safety, and have not kept pace with technological improvements. Housing regulations in some localities even mandate unrealistic minimum home sizes or prohibit manufactured homes.

Citizens, local officials, and the homebuilding industry, working together, can often identify and remove requirements that prevent the use of cost-effective techniques. In addition, good

---

design can make smaller living units and denser developments more attractive living areas.

**Financing Costs.** The cost of money has a major impact on the cost of housing. There is little that citizens, the homebuilding industry, and local officials can do to change interest rates, but it is possible to reduce the impact of interest on the final cost of a house.

A builder must borrow, at commercial rates, the money necessary to finance construction. If the construction process is delayed unnecessarily due to excessive local approval procedures, this additional time adds to the interest cost and therefore to the final cost of the house, with no benefit to anyone. Significant savings are possible when these delays are eliminated. In one HUD-sponsored project, local processing time was reduced from the normal 12–24 months to six months. This and other savings helped the builder cut prices by \$3,000 per house.

In its June, 1982 report, the President's Commission on Housing found that unnecessary regulation of land use and buildings has:

- denied consumers a wide range of housing choices,
- denied owners and developers the freedom to use property efficiently,
- hampered the production of housing, particularly for people of average or lower income,
- pushed up costs in some localities by as much as 25 percent of the final sale price, and



- 
- limited flexibility in housing construction, impeding the rate at which new products and building systems can be introduced.

### **Why should I care?**

There are many good reasons why you should care about the lack of affordable housing stock, particularly if you live in one of the many communities where high housing demand is accompanied by high housing costs.

**If you are a potential first-time homebuyer**, chances are good that you've been priced out of the market. A recent HUD study has shown that the ownership rate of married couples with heads of household between 25 and 29 years of age fell by 6.5 percentage points after October 1979 due to inflation and other factors affecting affordability.

Fewer new units were being bought by existing homeowners, again because of affordability factors. Hence, fewer existing homes were available for potential first-time buyers.

Your options are few, and none of them may be appealing. You can try to increase your income, you can dedicate a larger portion of your income to shelter instead of education, vacations, and other expenditures, you can pay high rent, or you can "double up" with family or friends.

**If you are an existing homeowner**, you should care because your freedom to move, even to a smaller unit than the one you have now, may be severely hampered. Most people move an average of once every five years due to a change of job, changing family size, divorce, death of a spouse, or retirement. Even with sub-

---

stantial equity in your present home, could you afford to keep up with the purchase and moving costs, or would your mobility be impaired?

Also, how are your property taxes affected by little-known and unnecessary housing and land use policies? Many of the policies cities now use have the effect of increasing taxes paid by current property owners, as well as increasing housing costs.

**If you have grown children or aging parents**, the lack of affordable housing may make it impossible for them to maintain a place of their own. Where are they to live—with you?

**If you are a completely satisfied renter**, consider what high housing costs do to your rent. In most cities, a vacancy rate of about five percent is considered “healthy,” with enough rentals available at any given time to keep prices reasonable. Competition for these units is keen, and prices tend to reflect the cost of building new apartments which also suffer from local over-regulation.

**If you are concerned about job opportunities**, data from the National Association of Home Builders (NAHB) indicates that construction of 1,000 houses leads to 1,759 worker years of employment—and not just in the homebuilding industry. Of these 1,759 worker years, 627 are in construction. Another 235 are in land development. Most important, the remaining 897 are in other industries, including manufacturing, wholesale trade, transportation, and other services. And this doesn't even count the jobs that go into making furnishings, appliances, and other items that may be purchased after completion of the unit.



---

**If you are one of the many American workers** today who can't afford to live in or near the community in which you work, affordable housing is an issue that should be important to you.

**If you are in business**, think about those of your employees who can't buy homes at all, or who might not be able to live in or near the community in which your business is located.

Think, too, about the loss of revenue you suffer because the growth of your community and others where you do business might be stifled by high housing costs. New consumers for your goods and services are kept out. Current residents might not be able to buy as many of your goods and services because so much of their income is going needlessly toward housing.

**If you are just plain concerned about the future of your community**, consider all the above. And consider that homeownership increases neighborhood stability. Studies have shown that homeowners feel better about their living quarters and their neighborhoods than do renters. They are more satisfied. They also tend to stay in their units longer than renters. They have a greater investment in the community, and are more likely to devote time to improving community life.

Certainly, new housing requires additional services. But new housing pays its own way. The NAHB has estimated that a typical \$70,000 unit will generate about \$1,260 annually in local property taxes. And that is only the beginning. The benefits accruing to the community in terms of jobs, stability, and economic growth must all be considered.

---

### **What can I do?**

Each citizen can do a lot. We all have a stake in making housing more affordable. We can join with others who recognize the need and begin to press locally for review of the factors that add needlessly to the cost of housing.

By forming or joining a coalition, we can help mobilize the resources of a wide range of community interests, including business people, civic leaders, blue- and white-collar workers, government officials, and others who need affordable housing.

Specifically, you can work to:

1. Convene a core group of representatives of these community interests.
2. Share concerns about housing affordability and goals.
3. Develop a consensus about the important issues to address.
4. Work with local officials and builders to learn what the impediments are to affordable housing.
5. Work to establish a continuing process of regulatory review by your coalition and local government.

---

### **What can I do?**

Each citizen can do a lot. We all have a stake in making housing more affordable. We can join with others who recognize the need and begin to press locally for review of the factors that add needlessly to the cost of housing.

By forming or joining a coalition, we can help mobilize the resources of a wide range of community interests, including business people, civic leaders, blue- and white-collar workers, government officials, and others who need affordable housing.

Specifically, you can work to:

1. Convene a core group of representatives of these community interests.
2. Share concerns about housing affordability and goals.
3. Develop a consensus about the important issues to address.
4. Work with local officials and builders to learn what the impediments are to affordable housing.
5. Work to establish a continuing process of regulatory review by your coalition and local government.